



Review Times

February 2016



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Events

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1. Financial Reporting

1.1 IASB issues new financial reporting standard on leases

On 13 January 2016, the International Accounting Standards Board (IASB) issued a new financial reporting standard, called International Financial Reporting Standard (IFRS) 16 *Leases*. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable in today's context and is a **major revision of the way in which companies account for leases**.

Leasing provides an important and flexible source of financing for many companies. However, the extant lease accounting Standard [International Accounting Standard (IAS) 17 *Leases*] makes it difficult for investors and others to get an accurate picture of a company's lease assets and liabilities, particularly for industries such as the airline, retail and transport sectors.

Listed companies using IFRS Standards or US GAAP are estimated to have around US\$3.3 trillion of lease commitments; over 85 per cent of which do not appear on their balance sheets. That is because leases to date have been categorised as either 'finance leases' (which are reported on the balance sheet) or 'operating leases' (which are disclosed only in the notes to the financial statements). This somewhat arbitrary distinction made it difficult for investors to compare companies. It also meant that investors and others had to estimate the effects of a company's off balance sheet lease obligations, which in practice often led to overestimating the liabilities arising from those obligations. **IFRS 16 solves this problem by requiring all leases to be reported on a company's balance sheet as assets and liabilities.**

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

Please visit the following URL for more information: <http://ow.ly/YmA7L>

1.2 IASB issues narrow-scope amendments to IAS 12

On 19 January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments, *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

Please visit the following URL for more information: <http://ow.ly/YmAcf>

1.3 IASB issues amendments to IAS 7

On 29 January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*.

The improvements to disclosures require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company's debt.

The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

The improvements are part of the Board's Disclosure Initiative—a portfolio of projects aimed at improving the effectiveness of disclosures in financial reports.

The IAS 7 amendments will become mandatory for annual periods beginning on or after 1 January 2017.

Please visit the following URL for more information: <http://ow.ly/YmAyu>

2. Auditing & Assurance

2.1 ISCA issues amendments to SSAs resulting from the project on Addressing Disclosures in the Audit of Financial Statements

On 15 January 2016, the Institute of Singapore Chartered Accountants (ISCA) issued the 10 revised Singapore Standards on Auditing (SSAs) and conforming amendments relating to *Addressing Disclosures in the Audit of Financial Statements*, which is based on the revised International Standards on Auditing (ISAs) on *Addressing Disclosures in the Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board (IAASB).

Financial reporting continues to evolve to meet the changing needs of users of financial statements. Most significantly, the increasing and widespread use of fair values and other estimates, often involving complex and judgemental measurements, has resulted in financial reporting requirements and practices requiring more detailed disclosures to provide more useful decision-making information. Increasingly, such disclosures are obtained from sources outside the general and subsidiary ledgers and are often qualitative as well as quantitative in nature.

The objectives of the changes are as follows:

- a. Focus auditor's attention on disclosures throughout the audit process;
- b. Enhance the requirements to drive changes in the auditor's approach and improve consistency in practice, in particular qualitative disclosures; and
- c. Clarify the auditor's work effort by providing additional guidance in the application material to assist auditors in better applying the requirements; and drawing specific attention to evolving types of disclosures and listing possible audit procedures.

Key revisions made to the standards include new and enhanced application materials developed for auditors to:

- a. Consider the risk of material misstatement at the assertion level for disclosures, including whether there is intentional misstatement of disclosures that may constitute fraud e.g. management may attempt to present disclosures in a manner that may obscure a proper understanding of the matters disclosed;
- b. Consider disclosures earlier in the audit process so that auditors give appropriate attention and allocate adequate time for addressing some of the challenges related to disclosures.
 - i) Encourage management to provide information for disclosures.
 - ii) Determine the effects on the audit of significant new or revised disclosures arising from changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities e.g. need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures.
 - iii) Communicate with those charged with governance on the planned audit approach.

- c. Pay attention to information in disclosures obtained from outside the general and subsidiary ledgers by understanding the information system, including related business processes relevant to financial reporting;
- d. Consider materiality for qualitative disclosures and that misstatements in disclosures need to be accumulated and evaluated;
- e. Strengthen procedures around the reconciliation of the financial statements, including disclosures, with the underlying accounting records, regardless of where the information came from; and
- f. Strengthen procedures when evaluating that the overall presentation of the financial statements is in accordance with a fair presentation framework such as the classification and description of financial information, the underlying transactions events and conditions and the presentation, structure and content of the financial statements.

The revisions to the standards encompassed changes to ten SSAs and conforming amendments to five other SSAs. For details of the affected standards, please visit the following URL: <http://ow.ly/YmB7k>

Effective Date

Amendments relating to *Addressing Disclosures in the Audit of Financial Statements* are effective for audits of financial statements for periods ending on or after 15 December 2016, in line with the effective date for the new and revised auditor reporting standards.

2.2 IAASB issues ISA 800 (Revised) and ISA 805 (Revised)

On 7 January 2016, the International Auditing and Assurance Standards Board (IAASB) released International Standard on Auditing (ISA) 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.

Reporting on special purpose financial statements is linked to the IAASB's new and revised Auditor Reporting standards issued in January 2015, in particular ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The amendments to ISA 800 and ISA 805 are limited to auditor reporting and are not intended to substantively change the underlying premise of these engagements in accordance with the extant ISAs.

ISA 800 (Revised) and ISA 805 (Revised) will become effective at the same time as the auditor reporting standards addressing general purpose financial statements—for audits of financial statements for periods ending on or after 15 December 2016.

Please visit the following URL for more information: <http://ow.ly/YmC2B>

3. Ethics

3.1 IESBA staff draw auditors' attention to key Ethics Code provisions when facing downward pressure on audit fees

On 6 January 2016, the International Ethics Standards Board for Accountants (IESBA) announced that its staff have developed a new publication, *Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure*, in response to stakeholder concerns about downward pressure on fees and its potential to adversely impact audit quality.

The publication highlights important considerations in the *Code of Ethics for Professional Accountants* (the Code) for auditors in relation to the setting of audit fees.

Among other matters, the publication outlines some of the reasons for downward pressure on audit fees and focuses on the key fundamental principles in the Code to which auditors must pay particular attention in these circumstances. It also highlights the different, but important, roles that those charged with governance, entity management, regulators, and other stakeholders can play in ensuring that financial considerations related to audit fees do not drive actions and decisions that undermine audit quality.

The publication will be relevant to auditors when considering tendering for a new audit engagement, or when proposing or agreeing fees for recurring audit engagements. It may also be of interest to those charged with governance, preparers, regulators and audit oversight bodies, investors, and others with an interest or role in auditors' work and their independence.

Please visit the following URL for more information: <http://ow.ly/YmCoS>

4. *Taxation*

4.1 E-Tax Guides

The legislative framework of income taxation is set out primarily in the Income Tax Act and subsidiary legislation like regulations, rules, orders, tax treaties, international transport agreements and exchange of information agreements. IRAS also issues Interpretation and Practice Notes, which are now known as e-Tax Guides. These e-Tax Guides do not bind the courts but rather set out IRAS' interpretations of certain aspects of the tax laws and its administrative practices.

IRAS regularly issues and updates e-Tax Guides on various aspects of income tax and other legislation like the GST, Property Tax and Stamp Duty Acts. These are available on the IRAS website.

5. *Regulatory & Business*

5.1 Update on BizFile+

Following the update, overhaul and launch of ACRA's newly revamped online business filing and information portal ("BizFile+"), ACRA has given additional extensions of filing time and will not impose filing penalties. This is in response to user feedback for more time to file their Annual Returns and other statutorily required filings. ACRA has further extended the time to file Annual Returns, Annual Declarations, Business Registration Renewals and any statutorily required filings which are due between 26 December 2015 to 3 March 2016 to 4 March 2016. No penalties or charges will be imposed, nor will the entity's compliance rating be affected, if these filings are made by 4 March 2016.

6. *Budget 2016*

RT supports the previous year's budget theme to proactively support businesses in Singapore by encouraging continuous innovation while assisting them to expand into the global arena. We also appreciate the government's plans to cater to the lower-income families and our seniors. We believe that the government will continue to be mindful of the need for Singapore companies to remain competitive by providing unique service propositions to the global market and will continue to support businesses in Singapore in this aspect.

We are pleased to provide our selection of suggestions for Budget 2016

6.1 Support Businesses By Controlling Costs

We suggest enhancing incentives for job redesign initiatives towards age universality of jobs and extending the Wage Credit Schemes for another 3 years. We feel that there is scope for the government to modify these schemes to apply to 100% of annual increments of longer serving employees.

We also suggest providing direct credits to employers that pay CPF for their Singapore Citizen employees and at the same time provide some offsetting of wage costs in order to encourage the retention of Singapore citizens.

Start-up companies can be supported by giving them 6-12 months' worth of rental credits to ease the burden of high rental costs.

6.2 Enhance Benefits for Companies that Embrace Innovation, Technology and Internationalisation

We suggest that incentives be enhanced for companies to undertake branding and internationalisation activities. Extending the PIC scheme to activities pertaining to internally-generated brands and internationalisation efforts will give recognition to the efforts of businesses attempting to establish a valuable brand which in turn give recognition to Singapore-branded businesses.

6.3 Lower the Tax Rate for Companies

We would like to suggest that the income tax rate be reduced to 16% so that a clear, direct and "first impression" comparison with Hong Kong would place Singapore as the preferred destination for inward investments. More importantly, the economic outlook for the near future appears to be less sanguine and a lower tax rate for companies would go some way in assisting businesses manage their cash flows.

6.4 Loss Carry-back relief – Increase the Cap and Timeframe

We suggest liberalising this by increasing the cap (to \$300,000) and to allow a longer timeframe (to 3 years) so as to incentivise SMEs to pursue their opportunities.

6.5 Order of Claim of Unutilised Items

We propose that claims on donations be placed first in line followed by capital allowances and losses, since unutilised capital allowances and trade losses can be carried forward indefinitely.

6.6 Medical Expense Restriction

Medical expenses are deductible only up to 1% of staff remuneration and up to 2% in cases where portable medical benefits are accorded to staff.

This policy may cause the unintended consequence of discouraging the continued employment of older workers who would tend to be more prone to medical issues. This would also contradict the government's initiatives to encourage older persons to continue to remain active in the workforce.

We suggest that all medical expenses be deductible.

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Events

CPA Australia Career Fair 2016



CNY 2016 Lunch Celebration



RT Office CNY Lion Dance



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